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Foreign Economic Trends and Their Implications for the United States

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THAILAND

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PREPARED BY
AMERICAN EMBASSY BANGKOK

U.S. DEPARTMENT OF COMMERCE
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THAIIAND - KEY ECONOMIC INDICATORS

All money values in US$ million; period averages unless otherwise indicated

		CALENDAR YEARS		
Exchange Rate:	US1.00 = Baht 25.29(1988) US1.00 = Baht 25.70(1989) US1.00 = Baht 25.60(1990)	1988	1989	1990
INCOME, PRODUCTION, EMPLOYMENT				
GNP at CUrrent Prices		58,608	68,771P	79,000
Real GNP Growth Rate		13.3	12.6	9.0
Per Capita GNP at Current Prices (US$)		1,075	1,240P	1,400
Percentage Breakdown of GDP at Current Prices by Major Sectors:				
Agriculture		16.6	15.2P	15.0
Manufacturing		24.8	25.4P	26.0
Wholesale & Retail Trade		15.9	15.5P	16.0
Services		13.0	13.2P	13.2
GNP at Constant (1972) Prices		20,014	22,173P	24,300
Gross Fixed Capital Formation at Current Prices		16,107	21,219P	n.a
Labor Force (in thousands)		29,920	30,870	31,760
Unemployment Rate (%)*		5.0	4.6	4.g
MONEY AND PRICES				
Money Supply (MI)		5,872	6,779	8,170
Commercial Bank Prime Rate (M0R)** End of period (%)		12.00	12.50	15.0
Indices:				
Wholesale Prices (1976=100)		193.0	201.9	210.0
Consumer Prices (1986=100)		106.4	112.1	120.0
TRADE AND BALANCE OF PAYMENTS				
Total Exports, FOB		15,958	20,090	23,000
Exports to U.S.		3,198	4,350	5,100
Total Imports, CIF		20,289	25,785	32,000
Imports from U.S.		2,750	2,906	3,600
Balance of Trade		- 4,331	- 5,695	- 9,000
Earnings from Tourism		3,118	3,750	4,650
Remittances from Overseas Workers		927	943	950
Current A/C Balance		- 1,654	- 2,466	- 4,750
Net Capital Movements		2,871	5,845	5,300
Overall Balance of Payments		1,601	4,337	n.a
Net International Reserves		6,430	10,215	13,500
External Public Debt		12,599	11,915	11,700
Annual External Debt Service (Total)		2,759	2,793	3,200
Debt Service Ratio (%)		12.9	10.5	11.0

Leading Import Items from U.S.: (Jan-Aug, 1990, dollars, millions): Electronic components (327), Aircraft and spacecraft (301), Cotton (88), Office machine parts (53), Turbojets and turbines (52), Aircraft parts (50), Tobacco-unmanufactured (48), Sound recording media (47). (U.S. Department of Commerce)

Footnotes: e - estimate , p - preliminary, * - includes available but not looking for work, ** - minimum overdraft rate. Data as of November 9, 1990.

Sources: National Economic and Social Development Board, Bank of Thailand, Ministry of Commerce, Ministry of Finance, Embassy estimates.

SUMMARY*

Thailand's economic development policies are based on a competitive, export-oriented, free market philosophy. Building on a base of strong agricultural production, the Royal Thai Government (RTG) has pursued a policy of encouraging diversification toward export-oriented light industries and increased reliance on tourism earnings. As a result, the Thai economy is booming. Even with sharply higher global oil prices during the fourth quarter of 1990, the Thai economy will remain one of the fastest growing in the world.

Thai economic strength during 1990 was broadly based. Exports grew rapidly, investment in new productive capacity continued at high levels, and domestic demand was strong. While agricultural sector expansion continued to slow, manufacturing and construction maintained double digit growth.

Thailand's booming economy resulted in national government revenues significantly above forecasted levels and, combined with a shortfall in investment spending, led to a third consecutive budget surplus. The government is attempting to increase its capital expenditures on infrastructure to catch up with the private sector's expansion. The government is also encouraging private sector investment in large capital infrastructure projects and is using surplus government revenues to reduce its external debt obligations.

Thailand's merchandise trade deficit continues to grow and may exceed $9.0 billion for 1990, although the overall balance of payments remains in surplus due to growing tourism earnings and large inflows of foreign investment. The sharp rise in world oil prices in the second half of the year may cause a further deterioration in the trade deficit.

In this situation the government's policy priorities are to allow the economy to gradually adjust to world market forces without causing undue disruptions in the agricultural and manufacturing sectors. A modest braking of the Thai economy's rapid growth would provide breathing room for development of infrastructure and reduction of inflationary pressures. The Consumer Price Index, which grew by 5.4 percent in 1989, will likely reach an eight-year high for 1990.

Bilateral relations between the United States and Thailand remain very good, although Thailand's industrial diversification and growing role in the world economic structure have inevitably given rise to certain trade frictions. Bilateral trade exceeded $7 billion in 1989 and continues to grow rapidly. The United States

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* This report was prepared in November 1990.

is Thailand's second largest trading partner after Japan. The U.S. Government encourages and assists U.S. business interested in a broader U.S./Thai economic and commercial relationship.

MACROECONOMIC SITUATION

Economic Growth: Real economic growth averaged over 11 percent from 1987 to 1989. Thailand continued its strong economic performance during 1990. Even with sharply higher global oil prices during the fourth quarter of 1990, the real gross national product (GNP) will grow roughly 9 percent for the year.

Thai economic strength during 1990 was broadly based. Exports grew rapidly, investment in new productive capacity continued at high levels, and domestic demand was strong. Agricultural sector growth was only about one-half the previous year's level, while manufacturing and construction maintained double digit growth.

GNP reached $68.8 billion (25.70 baht to the U.S. dollar) for 1989 and will approach $79.0 billion for 1990. On a per capita basis, 1990 GNP in current dollars may exceed $1,400. However, this figure masks significant regional disparities. The Embassy estimates that per capita GNP in the Bangkok area was more than twice the national average during 1989, while in some other regions it may fall below $600. There is, however, widespread agreement that the economic condition of the majority of the population has improved considerably in recent years.

The merchandise trade deficit may approach $9.0 billion for 1990, although a big surplus in the services and transfers account should hold the current account deficit to below $5.0 billion. Continued massive capital inflows, which reached $5.8 billion in 1989, will provide an overall payments surplus, boosting reserves to the value of almost five months of imports. The debt-service ratio, which fell during 1989, will grow slightly in 1990 due to heavy private sector borrowing.

Agricultural Sector: Overall agricultural sector production continued to decelerate in 1989 and early 1990 (in comparison with 1988, which benefited by comparison with 1987, a drought year with negative growth). Real growth, which decreased from over 9 percent in 1988 to about 4 percent in 1989 is expected to fall to less than 2 percent during 1990. While some 80 percent of Thailand's population continues to live in rural areas, the relative importance of the agricultural sector as a contributor to GDP has declined. The National Economic and Social Development Board indicates that agriculture accounted for 15 percent of GDP in 1989, down from 23.2 percent a decade earlier.

Farm income from major crops rose 12.4 percent in 1989 on the strength of improvement in nearly every region of the country. The southern region, however, suffered reduced agricultural output due to a major typhoon and subsequent flooding. (Two typhoons in 1990

are expected to cause problems in central Thailand during the 1990-91 growing season.) While 1989 saw 7.3 percent growth overall in the value of major cash crops, the value of grains and pulses rose only 2.6 percent. The four principal oilseeds grew 7.1 percent as 14 percent gains in soybeans and palm products were partially offset by a drop in coconut production. Poultry producers staged a strong recovery in 1990 with output up an estimated 8 percent. A further depletion of resources, meanwhile, is expected to result in little or no growth in fisheries production. The government's ban on logging resulted in a continued decline for the forestry sector while orchid production is expected to have continued its 30 percent annual growth.

Manufacturing Sector: Thailand's increasingly diversified manufacturing sector, which since 1979 has been the sector making the largest contribution to GDP, accounted for some 25.4 percent of GDP in 1989. Real output growth in the sector was about 16.8 percent in 1988 and 14.7 percent in 1989. Similar strong growth levels are expected for 1990. The export-oriented component of the sector also continued to be dynamic, attributable to, among other factors, the recent growth in export-oriented direct investment, the price competitiveness of Thai products -- both because of labor productivity and the currency realignments in recent years -- and to government policies which encourage exports.

Industries in which production has increased rapidly include computers and components, garments and footwear, furniture and wood products, canned food, gems and jewelry, ceramic products, and electronics. Production for the domestic market was also important in boosting 1990 output above already high 1989 levels. High growth industries include motor vehicle assembly and production of motor vehicle parts, construction materials, foods and beverages, and electrical appliances.

Other Sectors: High construction sector growth -- 26.9 percent in 1989 -- led to serious shortages of nearly all major construction materials. The industry was seriously overheated for most of 1990, although there was evidence of a slowdown in the pace of project starts in the second half. Construction of private office and residential properties showed more vigor than public sector projects. Sharply higher domestic demand contributed to strong growth in the wholesale and retail trade sector, which passed the agricultural sector to take second place in terms of contribution to GDP in 1989. Other sectors showing substantial real growth in 1989 included mining (20.4 percent) and financial services (19.0 percent). The services sector, including tourism, grew by 6.8 percent in 1989.

FISCAL PERFORMANCE

The fiscal performance of Thailand's national government during FY 1990 (year ending September 30, 1990) was an improvement over 1989's solid performance. Revenues continued to grow much faster than expenditures. According to preliminary Bank of Thailand estimates, total receipts exceeded $15.0 billion, up almost 28 percent from the corresponding figure for FY 1989. With total expenditures totalling just over $11.0 billion, the government's overall surplus rose to some $4.0 billion, 74 percent higher than the FY 1989 surplus. Delays in implementing public sector construction projects continued to hold expenditures below planned levels while revenues, particularly from the business tax, income taxes, and customs duties, continued to grow faster than expected.

The Embassy estimates the national government budget accounts for roughly 50 percent of total public sector spending. During FY 1990, the state enterprise sector as a whole received $296 million in transfers from the national government budget and returned about $740 million in profits to the national government. The Electricity Generating Authority of Thailand, Telephone Organization of Thailand, Thai Airways and the Government Lottery Bureau provided most nonfinancial state enterprise profit.

MONETARY POLICY AND INFLATION

Inflationary pressures became more of a concern during 1990. Thailand's official Consumer Price Index increased by 5.4 percent in 1989. Inflation will likely reach an eight-year high, rising about 6.5 percent during 1990, an acceleration from a 3.8 percent rise in 1988. Efforts to mobilize foreign savings were sufficiently successful to force the Bank of Thailand to tighten monetary policy during late 1989 to neutralize the impact of capital inflows. While liquidity loosened somewhat during the first half of 1990, the combination of slower external inflows, tax payments and uncertainty over the events in the Persian Gulf led to very tight liquidity in the fall. The Central Bank acted to inject additional liquidity into the commercial banking system through its repurchase window. Cost-push inflation arising from supply shortages became more of a problem, further compounded by rising international oil prices in the second half of the year.

INCOME DISTRIBUTION AND LABOR

Thailand's policy of promoting export-led growth through processing and manufacturing has led to significantly higher income levels in the Bangkok area and a few other areas where manufacturing or tourism are major activities. Elsewhere it has been much slower. Information on income distribution is not available. Nonetheless, it is estimated that the per capita income in the Bangkok area is probably around $3,000, several times the per capita income in some

poor up-country areas. Despite widespread poverty in the countryside, Thailand's relatively high productivity in food production assures that malnutrition is far less common than in most developing countries.

Thailand's labor force grew 3.9 percent during 1990 to reach approximately 31 million. Official unemployment is projected to rise to 4.9 percent by the end of 1990. The extent of underemployment is difficult to measure, but it appears to be extensive, particularly in rural areas. In Bangkok and five other industrialized provinces, the minimum wage rose to 90 baht (about $3.60) per day on April 1, 1990. In November labor leaders demanded an increase to 112 baht (about $4.40). Lower minimum wages prevail elsewhere to encourage investors to establish factories in the countryside. Only about 3 percent of the industrial labor force, which accounts for less than 15 percent of Thai workers, is unionized. Over half of the union members are employed in state enterprises.

EXTERNAL SECTOR

Thailand's merchandise exports will likely grow by only 14 percent in dollar terms in 1990 to about $23 billion, a deceleration from the 26 percent rate recorded in 1989. Lower growth was due in part to slowing world economic growth and worldwide declines in the prices of certain commodities. Growth in nontraditional and higher value added exports were again outpacing the eight traditional export categories. The value of merchandise imports will likely rise to $32.0 billion, up 24 percent in dollar terms from 1989. Consumer and capital goods showed the strongest growth, although petroleum product imports were also sharply higher in value terms. As a consequence, the trade deficit may reach $9.0 billion for all of 1990.

Earnings from tourism continued to rise in 1990. These earnings and remittances from Thai workers abroad contributed to a large positive balance in the services and transfers account. The events in the Persian Gulf will probably have only a modest impact on 1990 remittances as relatively few Thai workers were employed in Iraq and Kuwait. Because of the high trade deficit, the current account deficit will likely increase to $4.8 billion, or almost 6 percent of GNP. Private investors have become the most important source of foreign funds. Large positive net capital inflows will likely cover the current account deficit. Net official international reserves will likely exceed $13 billion at the end of 1990, equivalent to about five months of imports.

As of September 30, 1990, Thailand's outstanding external public sector debt and loan guarantees totalled $10.2 billion, down 12.3 percent from 1989. Of this $10.2 billion, almost half consisted of loans and guarantees from the Japanese Overseas Economic and Cooperative Fund (OECF), the World Bank (IBRD) and the Asian

Development Bank. The debt-service ratio, which declined by more than 2 percent in 1989 to 10.5 percent, will likely rise slightly due to higher private sector borrowing.

OUTLOOK FOR 1991 AND BEYOND

Real GNP growth in 1991 should continue to be strong. If global oil prices remain high and economic growth in Thailand's major markets slow, Thai economic growth could fall below 7 percent. This slowdown might permit the government to reduce infrastructure bottlenecks and ease some inflationary pressure. Agriculture may experience little, if any, real growth due to plateauing production and declining prices. Manufacturing output growth could slow somewhat, perhaps to around 10 percent, due to supply shortages, insufficient skilled labor and market slowdowns. A large increase in public sector spending for infrastructure projects could maintain construction sector growth, although there may be a slowdown in the rate of growth of commercial and residential projects.

For FY 1991 the Thai Government projects a balanced central government budget. Royal Thai Government revenue estimates have proven very conservative and the national government is likely to record another overall cash balance surplus. The state enterprise sector is also likely to be in surplus.

Barring a major disruption of global oil markets and a severe slowdown in Thailand's principal export markets, there is little reason to expect a decline in Thailand's real economic growth to much below 7 percent annually over the next few years. If oil prices moderate and global growth continues at a moderate pace, Thailand could grow faster than 7 percent in 1991. Infrastructure bottlenecks and shortages of skilled personnel will remain important dampening factors. Real growth beyond 1991 will also depend on the degree of demand restraint implemented to deal with an overheated construction sector and broader inflationary pressures, and future trends in capital inflows.

Lack of sufficient infrastructure remains a major problem. There is increasing public recognition that metropolitan Bangkok's infrastructure -- communications, ports, roads and mass transit, and electricity -- is already overtaxed and will come under more pressure. Efforts to promote industrial decentralization and create more infrastructure outside the Bangkok area will take years to implement. The government is working to increase private sector participation and investment in transportation and communications projects. For example, in October, the Thai Cabinet approved a $4 billion telephone project which will triple the telephone lines available in Thailand. In addition, the Cabinet has also approved several large transportation projects, both mass transit and new highways, in the Bangkok area. However, strong opposition from state enterprise labor unions and managements could constrain increased private sector participation in some sectors.

BILATERAL RELATIONS

Relations between the Governments of the United States and Thailand remain very good. The United States supports the consolidation of constitutional government in Thailand that promotes an improved living standard, the protection of Thailand's sovereignty against external threats, a preference for the peaceful settlement of disputes, an outward-looking economy, and the interdiction and eradication of illicit drugs. The United States has sought to build upon these interests in the post world war Two period through bilateral programs of economic, military, and technical assistance, and by working with Thailand in regional and world organizations.

The United States calls upon Thailand to play a role in the world economic structure commensurate with its industrial diversification and growing economic importance. While some trade frictions exist, the United States and Thailand are working to ease them. Following the GATT investigation requested by the United States, on October 9, 1990 the Thai Cabinet announced its decision to lift the long-standing ban on the importation of foreign cigarettes. Consultations are continuing to ensure effective market access for U.S. cigarettes.

The U.S. Administration has sought improvements in the Thai regime for protecting U.S. intellectual property rights. This issue is likely to be an area of continued discussion between the Royal Thai Government and the United States. The United States also initiated a dialogue with Thailand on promoting worker rights in response to recent U.S. legislation linking this issue with U.S. trade policy.

OPPORTUNITIES FOR U.S. EXPORTS

The U.S. share of Thailand's 1989 total trade was about 15.8 percent (up from 13 percent in 1982) but behind Japan's 24.5 percent. Total bilateral trade will likely approach $9.0 billion in 1990, with Thailand enjoying a bilateral surplus of well over $1 billion. Aircraft deliveries have accounted for much of the recent growth in U.S. exports to Thailand.

Best Prospects

Thailand's bright economic prospects, spurred by an investment climate that should attract continuing inflows of private capital, make the Thai market an attractive and potentially very profitable one. While U.S. firms can expect strong competition from companies headquartered elsewhere, opportunities in Thailand merit serious investigation and aggressive pursuit in many sectors. Officials throughout the Royal Thai Government have told the Embassy that they would welcome project proposals from U.S. companies. Thailand seeks to reduce the risk of becoming too dependent on a small number of companies for its technology, capital, and management inputs. As

evidenced by the growing number of Thai students pursuing technical and managerial courses of study in the United States, there is wide recognition in Thailand of U.S. expertise in these areas. In the Embassy's view, the following sectors offer the best prospects for expanding exports of U.S. goods and services over 1990.

Telecommunications Equipment: Thailand's total market for telecommunications equipment was estimated at $570 million for 1989. Total market growth may average 10 percent a year for the period 1990-1992. The Ministry of Transport and Communications (MOTC) has recognized the need to provide additional communications facilities and equipment in support of Thailand's development and diversification. Concessions on nationwide networks of data transmission, digital paging, cellular telephone, satellite earth station and fiber optic cable, including the 3 million line telephone expansion project worth about 150 billion baht ($6 billion) were granted to private firms. In addition, MOTC is negotiating with a private firm on granting a 30-year concession for a Thai-owned satellite project. Given the trend toward private concessions, U.S. telecommunications equipment vendors are in a good position, as private firms usually consider buying quality products, not necessarily the least expensive ones favored by government agencies.

Medical Equipment and Supplies: There is a growing need for hospitals, clinics, and other medical facilities in Thailand, both to serve Bangkok's growing population and to complement efforts to develop industrial and tourist activities outside Bangkok, particularly the Eastern Seaboard area. U.S. equipment seems to have an advantage over competitors' as doctors generally prefer quality products. The Thai market for medical equipment and supplies grew from $85 million in 1988 to $93.5 million in 1989, a growth of 10 percent. The market is estimated at $110 million for 1990, with an annual growth rate of 10 percent.

Food Processing and Packaging Machinery: The total market for food processing and packaging machinery in Thailand was estimated at $120 million in 1989, of which $90 million was imported. The market is projected to grow by 10 percent per year. Machines for the following industries have the best growth potential: fruit and vegetable processing/packaging; meat, poultry and egg processing/packaging; fish and seafood processing/packaging; fats and oil extraction and processing.

Computers and Peripherals: Total Thai demand for computers and peripherals was estimated at $130 million in 1989, almost all of which was imported. Computer purchases by government offices and state enterprises are projected to grow by 10 percent per year through 1995. Purchases by the private sector are forecast to grow by more than 20 percent per year. Minicomputers will have the biggest market share but microcomputers will have the highest growth prospect. There will be significant business opportunities in the

near term for applications software for control of manufacturing operations, because low wage rates are increasing and businesses are rapidly becoming more complex. Computer integrated manufacturing systems are of great interest.

Agricultural Products: The industrialization of Thailand and its concurrent economic development have brought a change in Thai eating habits. This is seen in the popularity of Western-style (including fast food) restaurants and in displacement of traditional "wet markets" by modern supermarkets. Products with good retail potential include fresh fruit and nuts, snack foods, confectionery, health foods, cheese, and wine. The food service and food processing sectors represent good markets for specialty produce, beef, beverage bases, soup mixes, fruit fillings, butter, oil, emulsifiers, and spices. In the non-food area, products with good market potential include sawn lumber, hides and leather, livestock genetics, and animal feed additives.

INVESTMENT CLIMATE AND OPPORTUNITIES

Thailand welcomes foreign direct investment as a means of promoting economic development, employment, technology transfer, and export diversification. The Investment Promotion Act of 1977 provides the basic framework for investment. The Alien Business Law imposes certain restrictions. The Board of Investment offers incentives to investors who commit to exporting substantial portions of their production or locating outside the Bangkok area. In one positive change for all investors, the Thai Government this year lowered the import tariffs on many types of machinery to 5 percent. The Securities Exchange of Thailand also offers attractive opportunities for portfolio investment.

U.S. direct investment in Thailand accounted for over 30 percent of the value of all foreign investment between 1970 and 1985, according to the Bank of Thailand. Firms from the United States have recently fallen behind those from Japan in establishing new factories in Thailand although U.S. investors established here are almost without exception enthusiastic about their operations in Thailand and are reinvesting heavily. Programs of the Overseas Private Investment Corporation are available to assist U.S. investors in Thailand.

FOR FURTHER INFORMATION

The Embassy in Bangkok, in cooperation with the Departments of Commerce, Agriculture, State, and the Agency for International Development (AID), in the United States, stand ready to assist U.S. businesses interested in broadening U.S./Thai commercial relations. Those in the United States should make the nearest district office of the Department of Commerce their first point of contact. Trade specialists in these offices can provide general briefing materials and specific assistance such as the Agent/Distributor Service, credit information on Thai importers or prospective agents, market

research studies, and guidance on upcoming trade promotion events. The country specialists for Thailand in the Commerce Department's International Trade Administration and in the Foreign Agricultural Service, Department of Agriculture, are also valuable sources of assistance. Other sources of assistance in Washington include the Trade and Development Program, which will consider financing for prefeasibility studies in Thailand if such studies are likely to lead to incremental U.S. exports, the U.S. Export-Import Bank, and the Overseas Private Investment Corporation. U.S. businesses are also invited to contact the Thailand/Burma Office, Department of State and the Thai/ASEAN Office at AID. Business visitors to Bangkok are welcome to make an appointment to meet with appropriate Embassy personnel to discuss their business interests.

* U.S. Government Printing Office : 1991 - 282-906/20030